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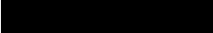
WORKING PAPER

WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 65

DATE: 30 August 1949

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INTELLIGENCE HIGHLIGHTS NO. 65
24 AUGUST to 30 AUGUST 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS
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In China, the Communist offensives have continued, with Lanchow in the northwest fallen and Amoy on the southeast coast under threat (p. 2). The increasing weakness of the Nationalists' mainland position focuses attention on the Generalissimo's island fortress of Taiwan, where factionalism within Kuomintang ranks appears to be on the increase (p. 3). The Communists, meanwhile, in commenting on the US White Paper, have indicated that they expect "imperialistic" attempts in the future to exploit their own Western-oriented intelligentsia, to bring economic pressures to bear and to publicize the special position in China enjoyed by the USSR (p. 4).

The appointment of a vice-president in Ho Chi Minh's Vietnam regime, when taken with other recent reports, may be evidence of increased USSR pressure on the Indochinese resistance movement (p. 5).

(NOTE: Available information concerning the recently-announced "Peoples' Government" of Manchuria is contained in Section III, p. 7.)

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

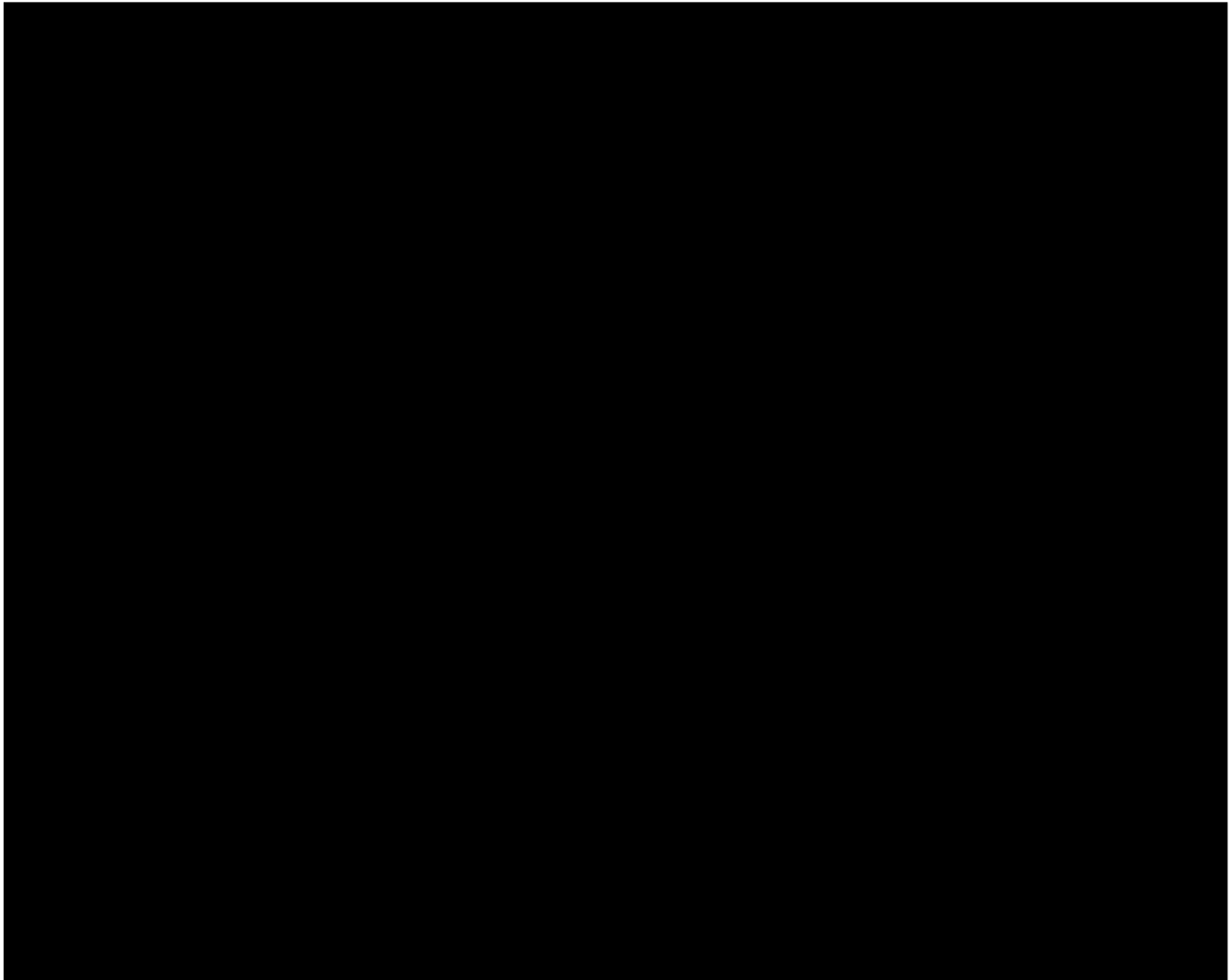
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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

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CHINA

Communists continue advances—While the situation on the Hengyang front in south-central China was being stabilized, at least temporarily, by PAI Chung-hsi's efforts, the Communist advance continued on other fronts. The vaunted Nationalist Moslem forces abandoned Lanchow, the capital of Kansu in northwestern China, and Communist columns pushed further south along the coast toward Amoy, only remaining Nationalist strong point in Fukien that lies within easy reach of Taiwan.

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Communist General PENG Teh-huai's 1st Field Army capped its easy conquest of eastern Kansu with the capture of Lanchow on 26 August, following a brief Nationalist defense. It is believed that most of MA Pu-fang's forces escaped from Kansu to Tsinghai with their fighting strength largely unimpaired. The continued existence of these forces, the formidable terrain obstacles (there is but one easily-defended road from Lanchow to Hsining, Tsinghai's provincial capital), and the ever-lengthening Communist supply lines all combine to make Communist pursuit of MA at this time doubtful.

PAI Chung-hsi's forces have brought a measure of stability to the situation northwest of Hengyang in southern Hunan, where, according to Nationalist press dispatches, a number of towns have been reoccupied by Government forces. Meanwhile, the advance guard of a Communist force moving toward Canton crossed the Kiangsi border and joined with Communist irregulars to seize several points in northeast Kwangtung. These forces threaten to break through to the environs of Canton within the immediate future.

In Fukien, elements of Communist General CHEN Yi's 3rd Field Army moved towards Amoy, after chewing up the Nationalist defenders of Foo-chow. Unconfirmed late reports indicate that the Communists have reached Chuanchow, 45 miles north of Amoy, and the fall of both cities is expected soon. The 3rd Field Army was also busy further north. Three armies reportedly crossed the narrow strait from the Chekiang coast and took Taisiehtao island on the fringe of the Chusan island group. The Chusans, bases for Nationalist naval and air operations against the Shanghai area, are defended by some 20,000 troops. While Communist assault on the main island of the group is expected soon, the loss of these bases will not end the Nationalist blockade of Shanghai, since both air and sea patrols can continue with curtailed efficiency from Taiwan bases.

Factionalism in Taiwan—This week's military developments serve to focus attention on Taiwan. Although the administration in threatened Canton is the official Government of China, the real seat of Nationalist authority is actually in Taipei, where Generalissimo CHIANG rules through the framework of the Kuomintang Supervisory Policy Committee. This committee, staffed by Kuomintang veterans, now controls all branches of governmental activity and overshadows Acting President LI's Canton regime through its exercise of both initiative and veto.

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Despite ostensible KMT solidarity, however, increasing dissent between key personnel on Taiwan, as well as the degenerating morale of Nationalist military forces there, have undermined the stability of the administration, further alienated the native Taiwanese, and produced a fertile field for Communist subversion. Friction between high Kuomintang functionaries on the island has centered on the ancient personal hostility between Governor CHEN Cheng and General SUN Li-jen, director of Nationalist military training. General SUN has control over training troops only, while the garrison force is under CHEN. CHEN, moreover, desires to extend his control over all troops on Taiwan, while SUN, an ambitious and able officer, has frequently been rumored as CHEN's successor. An open break between the two occurred recently when CHIANG, who has vacillated in his support of SUN and CHEN on various issues, countermanded a CHEN order which would have deactivated one of SUN's few crack divisions. CHIANG's failure to back up his loyal cohort, while surprising, apparently fits the Generalissimo's regular pattern of maintaining his own ascendancy by playing one man against another.

While this policy has helped to keep CHIANG atop the political heap in mainland China for more than two decades, its applicability to the restricted area of Taiwan is more doubtful. To date, Communist penetration of the island probably has been negligible. However, the influx of more than one million persons from the mainland since the end of the war certainly has permitted the infiltration of agents, who presumably are as active among Nationalist military forces as among Taiwanese malcontents. Growing Kuomintang factionalism will make the Communist task of subversion that much easier and thereby hasten the inevitable Communist attempt to take over. The Communists' recently-won positions on the Fukien coast opposite Taiwan, moreover, will permit considerable intensification of their efforts to this end.

Denouncement of US China policy--Replying editorially to the White Paper, the Chinese Communist Party has interpreted US policy in China, both recently and through the entire past course of Sino-US relations, as an "imperialist" attempt to transform China into a US colony. The CCP charges that the US - as an "imperialist" power - cannot respond in other than a hostile manner to "anti-imperialist" developments, and therefore will continue its effort to frustrate the "democratic revolution" in China.

"B"

The CCP editorial goes on to warn that future Western tactics in China will attempt: to encourage and support "democratic individualists," and intelligentsia, who, as the CCP admits, have been oriented toward the West; to apply economic pressure, such as the present "Western-supported" Nationalist blockade; and, finally, to exacerbate Sino-Soviet relations and promote "Titoism," by such means as the publicizing of Soviet activities in China as examples of "foreign imperialism."

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It is revealing to note that the CCP leadership foresees just such threats to its present position. The Party needs support from the pro-Western intelligentsia, whose enthusiastic cooperation is required in proclaiming a "coalition" government. The Nationalist blockade is having a severely depressing effect on China's economy. Furthermore, the CCP's subservience to the USSR, in the absence of significant material aid from that nation, is increasingly difficult to justify.

It is estimated that the Party leadership, for the foreseeable future, will maintain its stated view that all these problems are part of an "imperialist plot." "Democratic individualists" will be compelled to announce their transformation into "new democratic" individuals, and will not be permitted to exercise the slightest independent authority. The West, held responsible for the blockade, will be unable adequately to protect its nationals and interests in Communist China so long as the blockade is maintained and trade with the West is not forthcoming. And those who express doubts as to the benevolence of the USSR, and the value of the Sino-Soviet alliance, will be suppressed.

INDOCHINA

USSR may be pressuring Ho—Recent developments affecting the Ho Chi Minh resistance government in Vietnam may presage important internal changes and an international policy overtly linked with Moscow. The appointment a month ago of a vice-president for the Ho administration, an office vacant for over three years, is a possible indication that a successor to Ho Chi Minh is being groomed. The appointed official, Pham-van-Dong, who is believed to be a Communist, was also recently named chairman of the Supreme Council of National Defense. This position had reportedly been filled by Ho since the reorganization of the council in July 1948. "B"

The appointment, which could represent pressure on Ho to take action favorable to militant Communism, together with two recent broadcasts (one a Vietnam News Agency transmission reported by the French, and the other a Moscow English-language program beamed to Southeast Asia) give rise to further speculation. The French-monitored broadcast, celebrating the August 1945 revolution which established the Ho government, if authentic, makes it clear that Ho Chi Minh signed the September 1946 modus vivendi with France only to gain sufficient time to prepare the December 1946 uprising. Such an admission by the official Ho Chi Minh radio, which has previously denied responsibility for the December outbreak of hostilities, would indicate a radical change in policy, possibly connected with the appointment of Dong.

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The Moscow broadcast, reported by the US Embassy in Bangkok, quoted a letter supposedly sent by Ho to "Comrade" Stalin in which Ho reported on the extent of his territorial control, the receipt of arms and equipment from the Chinese for the coming attack against the French colonialists, and in which Ho expressed appreciation for the WFTU's aid in freeing the Asiatic peoples from the yoke of the "decaying capitalist countries."

The full implications of these two broadcasts are not yet clear, but the alleged letter may be the Ho Government's and Moscow's answer to French hints that negotiations between the Bao Dai government and Ho's circle would meet with French Government approval. Furthermore, the fact that revelation of the Ho-to-Stalin letter came, as have all other evidences of good relations between the USSR and the Ho Government, from a Soviet source, gives rise to a strong suggestion that Moscow is attempting to anticipate, or force the hand of, the Ho Government.

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SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

"Peoples' Government" for Manchuria

The Communist New China News Agency in Shanghai announced that a new "Peoples' Government" had been established in the Northeast, on 20 August, following a six-day "Peoples' Congress" in Mukden, reportedly attended by more than 300 delegates from all parts of Manchuria. The Mukden congress elected 41 officials for the new regime, headed by KAO Kang, a member of the CCP's Politburo and Secretary of the CCP Northeast Bureau. KAO served as chairman of the Manchurian delegation which recently negotiated a barter agreement in Moscow.

Other members of the new Government include LI Fu-chun, vice-Chairman of the CCP Northeast Bureau, LIN Feng, Chairman of the former Northeast Administrative Council, and General CHANG Hsueh-shih, younger brother of Marshal CHANG Hsueh-liang. According to Communist pronouncements, the new Government now inherits the authority of the Northeast Administrative Council, which has been functioning as a sort of provisional executor of Manchurian affairs. Theoretically, Manchurian sovereignty now resides in the "Peoples' Congress", whose will is to be carried out by the elected officials. Actually, the "Peoples' Congress" has done little more than formalize the existence of the totalitarian bureaucracy already operating under the domination of the CCP. There is no indication that the CCP has set up even a legalistic mechanism for the continuing supervision of this bureaucracy by the "Peoples' Congress".

The establishment of a "Peoples' Government" for Manchuria at this time raises the interesting question of why this step in Communist administrative consolidation has been so long delayed. The Central Plains and North China "Peoples' Governments" have been functioning for some time in areas "liberated" by the Chinese Communist Army long after the last vestige of Nationalist rule in Manchuria had been liquidated. Whatever may be the specific reasons for this delay, it is almost certain that the special position of the USSR in Manchuria is involved. Nominally, the new "Peoples' Government" in Manchuria will function under the federal authority of an all-China "Coalition" Government which probably will be established by the CCP before the end of the year. In reality, however, it is clear that Manchuria will be treated as a special area and that its political development will be determined more by its relationship with the USSR than with China proper.

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The Soviet position in Manchuria has been strengthened since the latter part of 1946 through Soviet exploitation of the terms of the Sino-Soviet Treaty of 1945, and through close economic and political ties with the Chinese Communists. In fact, the development of Manchuria as a semi-autonomous Soviet satellite may be well advanced. Among recent indications may be cited: the recent barter agreement with the USSR, heavy CCP emphasis (in Manchuria especially) on the Soviet role in the defeat of Japan and on the importance of close Sino-Soviet ties, and references in the Communist press to Manchuria as the most suitable laboratory for instituting Soviet-style industrial planning and organization.

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